



UNIVERSITI PUTRA MALAYSIA

**PERFORMANCE OF MALAYSIAN WOODEN FURNITURE
INDUSTRY AGAINST GLOBAL EXPORTERS**

LIONG KANG WEE

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**PERFORMANCE OF MALAYSIAN WOODEN FURNITURE INDUSTRY
AGAINST GLOBAL EXPORTERS**

By

LIONG KANG WEE

**Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia,
in Fulfillment of the Requirements for the Degree of Master of Science**

October 2002



DEDICATION

... In loving memory of my father
LIONG YAT MING (1949 – 1999)

Always in my thoughts.

Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfillment of the requirement for the degree of Master of Science.

**PERFORMANCE OF MALAYSIAN WOODEN FURNITURE INDUSTRY
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October 2002

Chairman: Assoc. Professor Mohd. Zin Jusoh

Faculty: Forestry

This study attempts to investigate export direction and growth of Malaysian wooden furniture compared to five world's leading exporters, China and selected countries from Southeast Asia (Vietnam, Thailand and Indonesia). These countries were chosen because they are of great potential of their steadily increasing export of superior quality wooden furniture. Four categories of wooden furniture were focused on for the analyses which were wooden furniture used in (1) office, (2) kitchen, (3) bedroom and (4) other wooden furniture. The statistical data for import and export from 1994 – 1998 were collected from the International Trade Center (COMTRADE). A share structural analysis was employed to analyze the export trend whilst the export performance was examined using constant market share (CMS) approach.

In 1998, Malaysia ranked fifth and seventh in the world ranking of wooden furniture export leaders for office and other wooden furniture, respectively. The United States (US), Japan, Singapore and the United Kingdom (UK) were among the largest destination for Malaysian wooden furniture. In contrast, most of the exports of wooden

furniture from other world top exporters were destined to European countries besides the United States and the United Kingdom. However, exports from Canada, Mexico, Southeast Asia, and China were highly dependent on the US market. The CMS analysis showed that all the world leading exporters have a capability to gain the world market share. However, the export growth of Canada and Mexico had been questionable because both of them had been wholly dependent on the United States market. China and Malaysia had been the nearest competitor to the world leading exporters particularly in wooden furniture used in office and other wooden furniture. The rapid growth of Thailand and Vietnam were also being noticed, whilst Indonesia showed a relatively slow growth.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia
sebagai memenuhi keperluan untuk ijazah Master Sains.

**PENCAPAIAN INDUSTRI PERABOT KAYU MALAYSIA
BERBANDING DENGAN PENGEKSORT DUNIA**

Oleh

LIONG KANG WEE

Oktober 2002

Pengerusi: Profesor Madya Mohd. Zin Jusoh

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Kajian ini adalah bertujuan untuk mengkaji arah aliran dan pertumbuhan eksport perabot kayu daripada Malaysia berbanding dengan lima negara pengeksport terkemuka dunia, China dan negara-negara terpilih daripada Asia Tenggara (Vietnam, Thailand and Indonesia). Pemilihan negara-negara tersebut adalah berdasarkan kepada potensi yang ditunjukkan oleh mereka dalam peningkatan eksport perabot kayu yang berterusan dengan kualiti yang tinggi. Penganalisaan ini tertumpu pada empat kategori perabot kayu iaitu, perabot kayu yang digunakan di (1) pejabat, (2) dapur, (3) bilik tidur, dan (4) perabot-perabot lain. Data statistik untuk import dan eksport dari tahun 1994 – 1998 telah diperolehi daripada Pusat Perdagangan Antarabangsa (COMTRADE). Analisis struktur syer telah digunakan untuk menganalisa arah aliran eksport manakala pencapaian eksport telah dinilai dengan menggunakan kaedah syer pasaran malar (CMS).

Malaysia telah menduduki tempat kelima dan ketujuh dalam kedudukan negara pengeksport terkemuka dunia untuk kategori perabot kayu yang digunakan di pejabat dan

perabot–perabot lain dalam tahun 1998. Amerika Syarikat, Jepun, Singapura dan United Kingdom merupakan destinasi utama untuk ekport perabot kayu Malaysia. Sebaliknya, kebanyakan eksport perabot kayu dari negara-negara pengeksport terkemuka telah didestinasikan ke negara-negara Eropah selain daripada Amerika Syarikat dan United Kingdom. Walau bagaimanapun, eksport dari Kanada, Mexico, negara-negara Asia Tenggara, dan China amat bergantung kepada pasaran Amerika Syarikat. Analisis CMS menunjukkan negara-negara pengeksport utama dunia mempunyai keupayaan untuk meraih tawaran permintaan dunia. Namun begitu, perkembangan eksport untuk Kanada dan Mexico telah menjadi satu persoalan kerana mereka bergantung sepenuhnya kepada pasaran Amerika Syarikat. China dan Malaysia merupakan pesaing terdekat bagi negara pengeksport utama dunia terutamanya untuk perabot kayu yang digunakan di pejabat dan perabot-perabot kayu lain. Thailand dan Vietnam telah menunjukkan perkembangan yang pesat manakala perkembangan di Indonesia secara relatifnya agak perlahan.

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I certify that an Examination Committee met on 4th October 2002 to conduct the final examination of Liong Kang Wee on his Master of Science thesis entitled “Performance of Malaysian Wooden Furniture Industry against Global Exporters” in accordance with Univesiti Pertanian Malaysia (High Degree) Act 1980 and Univesiti Pertanian Malaysia (High Degree) Regulations 1981. The Committee recommends that the candidate be awarded the relevant degree. Members of the Examination Committee are as follows:

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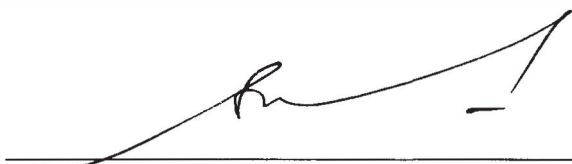
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DECLARATION

I hereby declare that the thesis is based on my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously or concurrently submitted for any other degree at UPM or other institutions.



LIONG KANG WEE

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LIST OF ABBREVIATIONS

CMS	Constant Market Share
CSIL	Centro Studi Industria Leggera (Centre for Industrial Studies)
EU	European Union
GDP	Gross Domestic Product
HS	Harmonize System
MTC	Malaysian Timber Council
MTIB	Malaysian Timber Industry Board
NAFTA	North America Free Tax Area
NGOs	Non-Government Organizations
SEA	Southeast Asia
SITC	Standard International Trade Code
UK	United Kingdom
US	United States
USD	United States Dollar

CHAPTER 1

INTRODUCTION

1.1 Introduction

Increasing demand and supply in the world market from year to year for furniture has increased the opportunity for the current suppliers to explore the new market besides strengthening the present market. However, at the same times increasing demand in the world market will also attract new competitors. The competition among current and new suppliers will be much especially for the wooden furniture industry due to its emphases are more on labour skill, raw material and it is labour intensive in nature.

Efficient production and marketing of the products are important in preparing the country to compete in the global market. According to Booth (1992), 'global competitiveness' is the capability of a business to gain and sustain a competitive advantage against all competitors around the world, by serving a targeted group of buyers in the market and earning superior financial returns. Therefore, wooden furniture industry must be able to compete with producers of other raw materials such as metal and plastic and it must be able to deliver better-valued product compared to other competitors around the world.

1.2 Overview of World Furniture Trade

In 1999, world furniture production was worth about USD 180 billion (Finzi, 2000). The major industrial countries contributed to this production value belonged to the G7 group (listed in decreasing order in terms of value of furniture production: the United States (US), Germany, Italy, the United Kingdom (UK), France, Japan and Canada) which manufactured about 60% of the world furniture. Another 20% was manufactured in the rest of the developed countries combined. Meanwhile, the developing countries manufactured the remaining 20% of the world production.

The geographical distribution of world furniture production is 40% in Western Europe (the European Union plus Norway and Switzerland), 26% in North America, 24% in Asia and the Pacific region, 4% in Eastern Europe and Russia, and 4% in South America (Finzi, 2000). The main exporters are Italy, Germany, Canada, China, the US, France, Poland and Mexico. Although Italy remains by far the top exporting country, Italian share of total exports has declined substantially. Whilst, several competitors (Canada, China, Poland, and Mexico) have successfully increased their exports in the last five years. The main furniture importing countries are the US, Germany, France, UK, Canada and Japan.

The worldwide imports/consumption ratio is growing rapidly. The Centre for Industrial Studies (CSIL) estimated that the ratio would increase from 19% in 1995 to more than 25% in 1999. In other words, the rate of market expansion keeps growing, and

the international furniture trade increases more rapidly than consumption. This is particularly important in the US, which has a furniture deficit in excess of USD 10 billion per year and gives a powerful stimulus to international furniture trade. The forecast for 2001 is cautiously optimistic.

1.3 Problems Statement

The furniture industry in Malaysia has grown from stage to stage, starting off humbly as a cottage industry in early 1970s to the larger, automated plants equipped with sophisticated machinery capable of producing mass volume for export in the mid 1980s (Anon., 1995). Since then, export of wooden furniture has grown rapidly in a positive trend. The success of the industry is due to several factors such as increase productivity and efficiency, continuous research and development efforts, government incentives and competitiveness of the wooden furniture in the global markets.

Statistical data from the Department of Statistic, Malaysia (Anon., 2001) showed a continuous export growth in Malaysian wooden furniture. The export value has grown from USD 300 million in year 1994 to USD 1 billion in year 2000 or an increase of 233%. This is an impressive result for the Malaysian furniture industry. Even though the Malaysian furniture industry is continuing its accelerated growth, Malaysian exporters have to know whether this growth was generated by the increased of the world total demand or they are moving to gain the world market share.

Wooden furniture industry is labour an intensive industry. Therefore, countries like Malaysia and other developing countries would have better competitive advantage compared to the developed countries. However the world's leading exporters for wooden furniture are from developed countries and they are able to capture a sizeable of proportion of the world's market share.

The main problems faced by the small and medium plants involved in export, are lacking of information and knowledge of foreign market, and unable to adapt the experience towards foreign market. If these problems persist, future development of the wooden furniture industry would be uncertain. Hence, it is important for the Malaysian exporters to know the strengths of their competitors' in the international market.

1.4 Objectives of Study

1.4.1 Main Objective

The main objective of this study was to assess the performance of Malaysian wooden furniture exports against other global exporters for the main categories of wooden furniture.

1.4.2 Specific Objectives

1. To study the export trend of Malaysia's wooden furniture together with world leading exporters and selected world exporters for the main categories of wooden furniture.
2. To investigate the export growth of Malaysia, world leading exporters and selected world exporters for the main categories of wooden furniture.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

Malaysia is one of the leading exporters of tropical hardwoods in the world as well as tropical sawn timber, plywood and hardwood moulding (Anon., 1998a). Large amount of log supply coming from forest lands is used to support the rapid development and establishment of other primary wood processing industries. The continued strong international demand for primary wood product coupled with the availability of raw material have made possible for the logging and primary wood processing industries in the country to survive.

The wood-based sector is dominated by primary processing activities of sawmilling, veneer and plywood production. However, in recent years, downstream processing activities such as the manufacture of mouldings, furniture and joinery have increased significantly. Presently, there are about 2,965 furniture and woodworking factories scattered throughout the country. There are about 2,630 mills in Peninsular Malaysia and about 120 and 215 mills in Sabah and Sarawak. Generally the mills in Peninsular Malaysia are more developed compared which about respectively (Anon., 1994).

Furniture manufacturing industry in Malaysia started off with a natural advantage of abundant forest resources and a pool of skilled and cheap labour. The fast-maturing Malaysian furniture industry expands vigorously every year. It has been identified as a 'target industry' under the Government's First (1986 to 1995) and Second (1996 to 2005) Industrial Master Plan (IMPs). The government is convinced that vast potential exists for furniture in the export market and is keen to stimulate development in this direction. The government therefore encourages the establishment of projects to manufacture furniture for export market in order to tap this potential and also to lead the existing manufacturers to look beyond domestic markets.

Export value of wooden furniture in 1996 was RM 1.6 billion, which placed Malaysia as the second largest exporter in this region, after Taiwan, whilst the 15th in the world (Anon., 2000c). The export value has been increasing every year and it reached RM 3.8 billion in year 2000. However, since early 80's export of Malaysia wooden furniture was mainly to the US and Japan where it accounted more than 50% of the total exports (Anon., 2001).

2.2 Trends in the World Furniture Market

The world furniture market generally records a similar behaviour to that of the world economy. An average annual growth in the world trade of furniture is noticeably higher than the world production. Growth in the world trade and production of furniture